

Canada Geothermal Oil Ltd.
Annual Report 1973

DIRECTORS

† M. E. Algar
Vice President of the Company
Calgary, Alberta
F. F. Gray
Consulting Geologist
Calgary, Alberta
C. R. Hoar
Accountant
Partner, Hoar & Forest
Calgary, Alberta
A. E. Jenner
Investment Officer
Citicorp Venture Capital Canada Ltd.
Oakville, Ontario
G. L. Leonard
Investment Officer
Charterhouse Canada Limited
Mississauga, Ontario
† F. W. Pooley
Vice-President, Finance of the Company
Calgary, Alberta
† J. E. Prothroe, Q.C.
Secretary-Treasurer of the Company
Partner, McLaws & Company
Calgary, Alberta
R. E. Wolf
Geologist
President of Yukon Geothermal Co. Ltd.
Calgary, Alberta
Vacancy
† Member of the Executive Committee

OFFICERS

M. E. Algar
Vice-President
E. V. Ciancanelli
Vice-President, Geothermal & Mining
F. W. Pooley
Vice-President, Finance
J. E. Prothroe, Q.C.
Secretary-Treasurer

AUDITORS

Deloitte, Haskins & Sells,
Calgary, Alberta

COUNSEL

McLaws & Company
Calgary, Alberta
Day, Wilson, Campbell
Toronto, Ontario

BANKERS

Canadian Imperial Bank of Commerce
Calgary, Alberta

REGISTRAR AND TRANSFER AGENT
Guaranty Trust Company of Canada
Calgary, Alberta
Toronto, Ontario

LISTING

Toronto Stock Exchange
Symbol CGU

HEAD OFFICE

600 — 250 University Avenue,
Toronto, Ontario M5H 3E7

EXECUTIVE OFFICE
703 — 703 - 6th Avenue S.W.,
Calgary, Alberta T2P 0T9

MAILING ADDRESS

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To The Shareholders:

Your Company in the past year has continued its aggressive policy of acquiring oil and gas interests in promising areas throughout the world and is now extending this approach into the geothermal energy field. Electric power from geothermal steam plants in the Geysers area of California has proved economically viable and a tremendous increase in activity is building up for this relatively unknown and little utilized energy source. The Company has been fortunate in obtaining the services of an experienced geothermal and mineral geologist in Mr. Eugene V. Ciancanelli, who has been appointed Vice-President, Geothermal and Mining Division. His geothermal background embraces detailed field and laboratory studies of the Geysers Steam Field, California, the Geysers-Clear Lake Geothermal Province, California, and Klamath Falls, Oregon, as well as reconnaissance studies of other geothermal areas in Western U.S.A. An office has been opened in San Diego, California to facilitate geothermal activities. The Company has made its first applications for geothermal rights in California.

In new foreign oil and gas ventures, the Company formed a Dutch North Sea Group which was fortunate to be granted two licenses covering 108,000 acres. In Bangladesh, out of 40 corporate groups making application for licenses, the Company was one of 16 groups invited by the Government of Bangladesh for individual discussions in June, 1973. A group of companies organized by Canada Geothermal has made offshore applications in Spain. The Company also joined a group making applications in Ireland, arranged to join a group in offshore Norway when the situation there is clarified, and initiated approaches to other countries with favourable sedimentary areas.

Seismic exploration programs continued in the U.K. offshore waters and in Tunisia. Results in Tunisia have been encouraging and both Tunisian groups in which the Company participates are planning to drill this year.

In Canada during the year the Company participated in the drilling of ten wildcat wells resulting in one oil well, two gas wells, one uneconomic shut-in oil well, and six dry and abandoned wells, two of which were unable to reach their target zones. Two wildcat and seven development wells are planned for the coming year. Through activities in the Arctic Islands all of the Company's working interests are in good standing with no cash requirements until 1975.

Current working capital requirements were provided from two private placement financings: a \$500,000 convertible debenture issue to Citicorp Venture Capital Canada Ltd. (a wholly-owned subsidiary of First National City Bank of New York) and Charterhouse Canada Limited, (a member of the Charterhouse Group of London, England), and a \$300,000 debenture issue with an option on 55,000 shares at \$2.50 per share to Ventures West Capital Ltd.

Enclosed with this report is the Information Circular giving the details of the proceedings to be considered at the Annual Meeting and a Proxy form for voting rights. In the event you are unable to attend the meeting would you please complete the Proxy and return it in the envelope enclosed.

On Behalf of the Board of Directors,

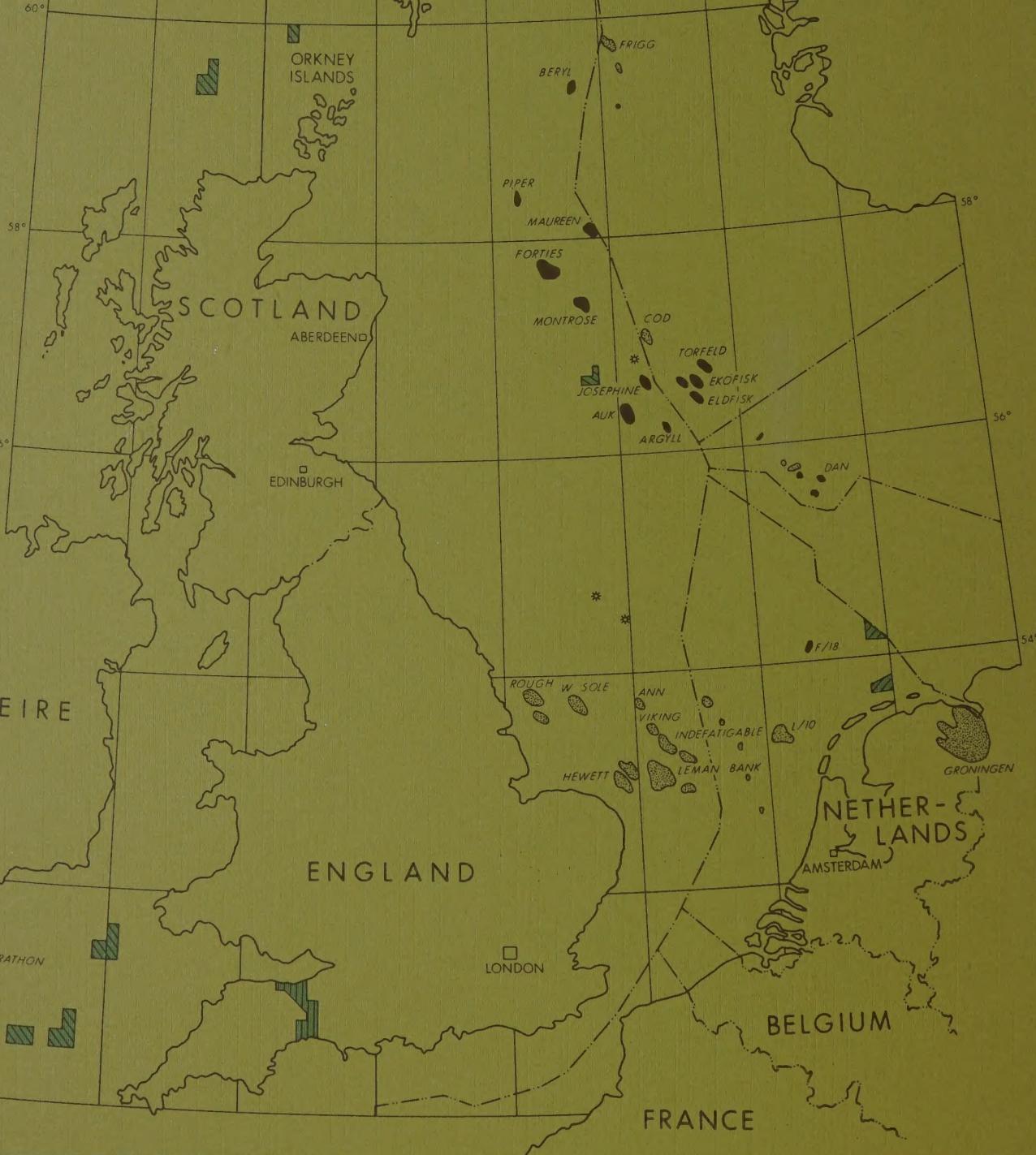
Calgary, Alberta
July 13, 1973.

M. E. Algar,
Vice President

NORTH SEA

- CANADA GEOTHERMAL OIL LTD 16.75% INTEREST
- CANADA GEOTHERMAL OIL LTD 34.75% INTEREST
- FARM-IN LANDS
- OIL FIELD ○ GAS FIELD

61 0 SCALE 61 122 MILES



United Kingdom

773,077 gross acres 129,493 net acres

The United Kingdom sector of the North Sea has been the scene of extensive seismic exploration and drilling activity during the past year. Significant discoveries have been made in the area northeast of the Shetland Islands by the Shell-Esso team at Brent and Cormorant and by the Signal group at Halibut. Occidental have now completed three wells in the Piper field 50 miles northwest of the Forties field. Mobil have a discovery called Beryl about 35 miles southwest of Frigg field and Hamilton Brothers have a second well about 40 miles southeast of the Auk field in what is now called Argyll field. It is reported that a rig is to be moved into the Celtic Sea this summer to drill in the U.K. sector at a location between two of the Premier group's blocks.

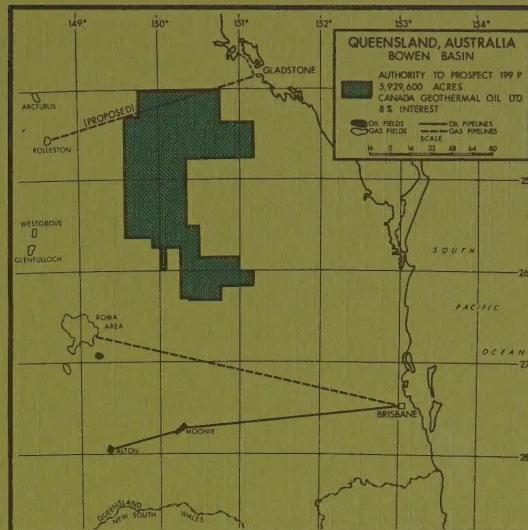
During the year we increased our interest in the Premier Group to 16.75%. The group participated in and acquired seismic data covering all of our licences. Interpretation of the two half blocks in the North Sea has been completed. Interpretation of the Celtic and Shetland-Hebridean blocks is expected in time for group meetings in June 1973 to formulate plans for the future.

A farmin has been arranged on two onshore licences covering 218,189 acres in southwestern England on which there is a large anticlinal structure outlined by seismic. The Company is earning a 20% interest by spending \$12,500 and can earn an additional 40% interest in each licence by drilling a 4,000' well. Plans are proceeding with regard to drilling this fall.

Netherlands

108,725 gross acres 37,782 net acres

Our group was granted two licences in the eastern sector of the Dutch offshore waters to the northwest of the onshore Groningen gas field, which has 48 producing gas wells and reserves of 54 trillion cubic feet. We have increased our working interest in this group to 34.75%. The group has purchased the available seismic on the licences and is planning more detailed seismic investigation as soon as feasible.



Australia

5,929,600 gross acres 474,368 net acres

The Company acquired an interest in Permit 199P in East Bowen Basin, Queensland, Australia. A seismic program is planned but further work is being deferred pending new legislation from the Australian Federal Government.



Spain

In February, 1973 the Company organized and acted for a group of Canadian independent oil companies in applying to the Spanish Government for exploration permits in the Mediterranean Sea, offshore Tarragona approximately 40 miles north of the Amposta Marino oilfield. Permit awards have not yet been announced.



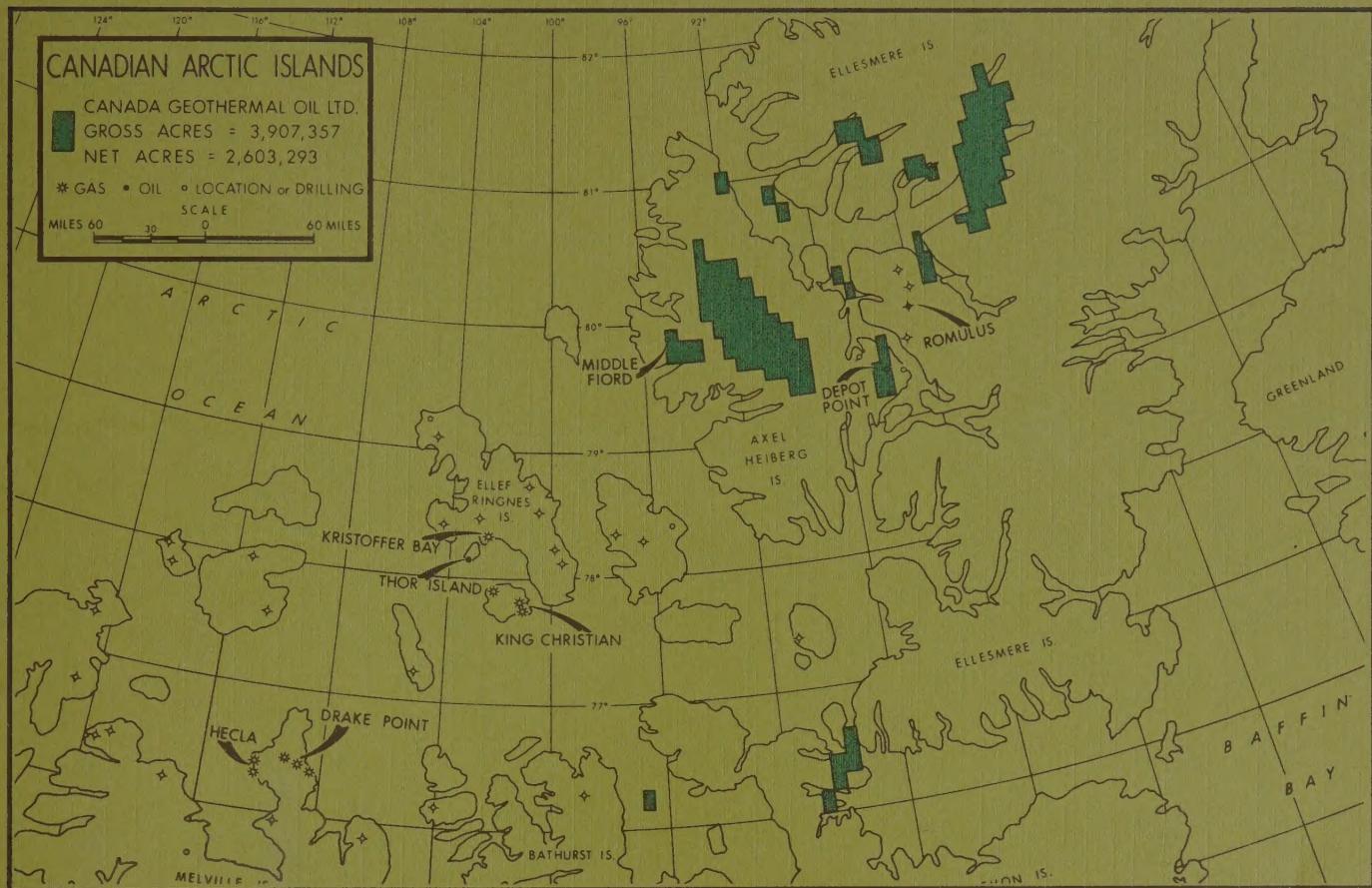
Tunisia

6,367,599 gross acres 106,276 net acres

Reconnaissance seismic has been completed on all three permits held by the CIGOL group in which the Company has a 1% working interest carried through \$5,000,000. Detailed marine seismic has been done on part of the offshore acreage to delineate anomalous areas and two exploratory tests are planned for 1973, one of which will be

in the eastern part of the Gulf of Gabes block. In addition an application has been made to enlarge the onshore permit to the east from 1,183,115 acres to 1,654,900 acres.

The Buttes group, in which the Company has a 2½% working interest, has been granted a 550,000 acre extension to the present permits. Seismic results have been encouraging and drilling is planned for the fall of this year.



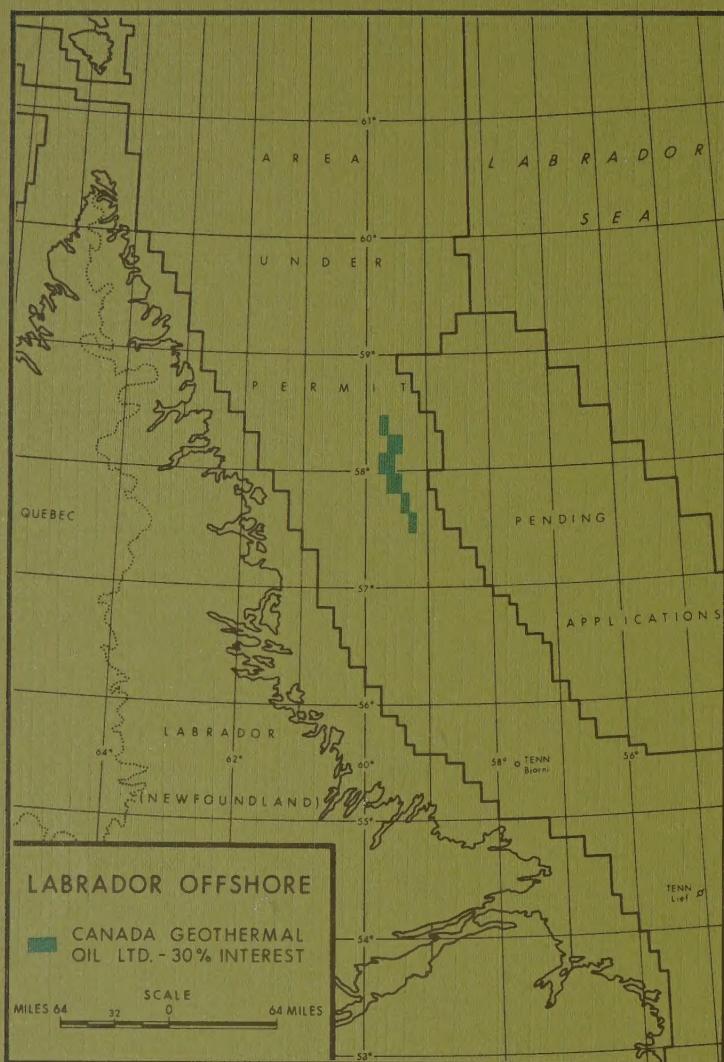
Arctic Islands

4,035,693 gross acres
2,592,150 net acres

This was a very active year for the Company in the Arctic. A group was formed to participate in the Drillarctic program of two wells, Depot Point and Middle Fiord, the former on the east side and the latter on the west side of Axel Heiberg Island. Depot Point was abandoned at 13,500' due to drilling problems without reaching its target zone in the Permian. Because of the delay in spudding Depot Point caused by last year's heavy sea ice and the drilling problems, this spring, it will be impossible to move the rig to the Middle Fiord location until after freeze up this fall when Middle Fiord will be drilled.

The work credits earned from Drillarctic are being applied to help maintain Company acreage in the area. A 1% working interest in the Middle Fiord well was disposed of for \$194,000 which was also applied on maintenance of the

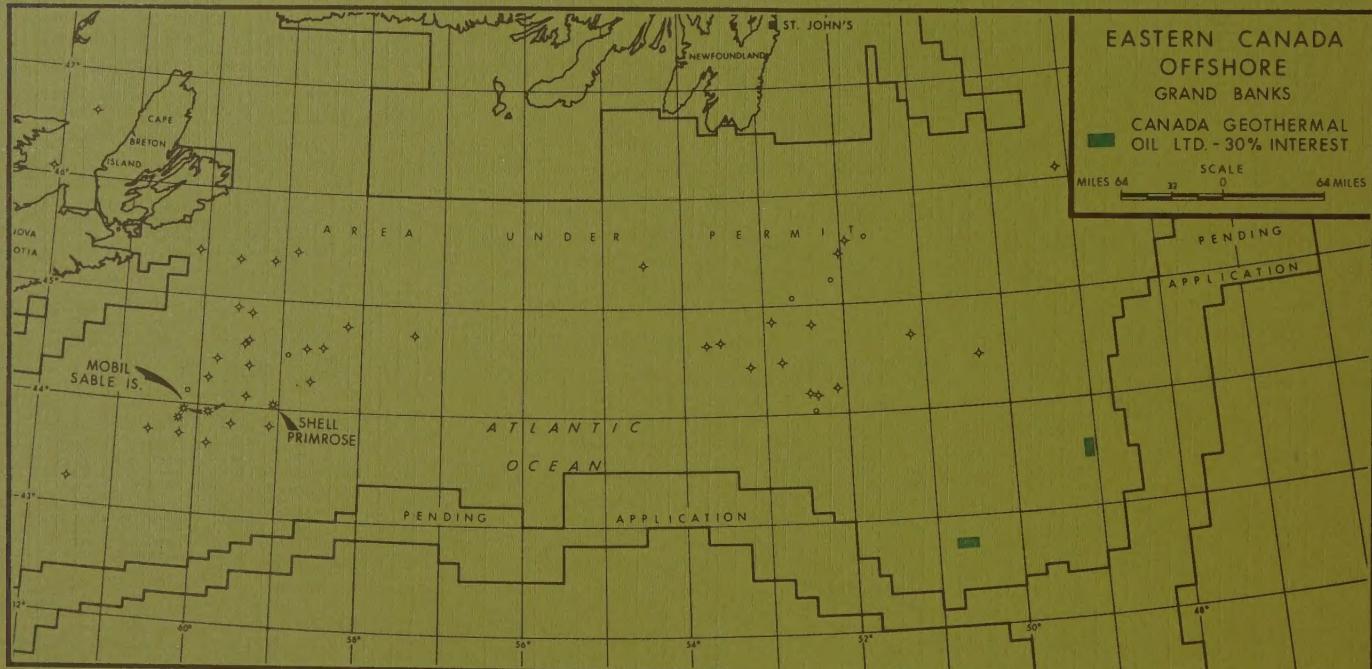
acreage. An additional 25% interest was acquired in 954,151 acres increasing the Company's interest to 70% in said blocks. Two blocks of permits, totalling 190,199 acres, were farmed out for \$300,000 and maintenance of the farmed out permits to term in return for a 45% working interest with the farmee having the option to earn a 100% working interest (subject to a 20% net carried interest for our group) by drilling a 10,000' well on each block. The \$300,000 was applied to maintain other Company permits. At year end arrangements were made to acquire an addition net 15% interest in 302,929 acres increasing the Company's interest to 40% in Permits A5113-A5117, and it was agreed to drop the two Russell Island permits A5111 and A5112 due to the discouraging results of the Sun Russell Island well. Negotiations are presently underway to farm out an additional small block of permits. It is significant to note that all of the Company's commitments in the Arctic are now fulfilled to 1975.

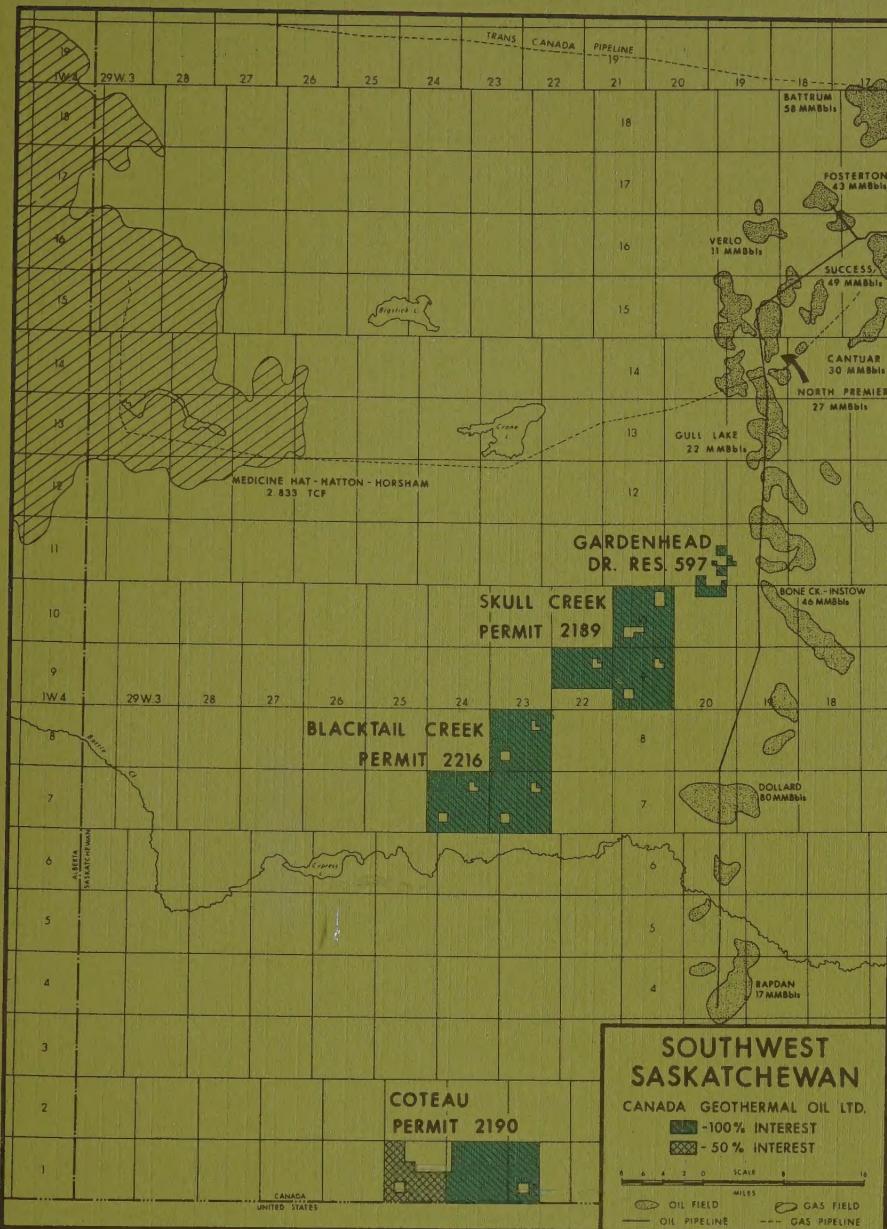


East Coast Offshore

398,384 gross acres 119,515 net acres

Drilling activity on the Grand Banks, north of two of our permits, is continuing with two rigs on a steady basis by the Amoco-Imperial team which has now been joined by Skelly and Standard Oil of British Columbia. Non-commercial hydrocarbon shows have been encountered in at least three of the fourteen tests completed since 1971. Mobil recently acquired the Bow Valley 33.33% interest in all of our permits while Michigan Wisconsin Pipe Line Company and American Natural Gas Production Company, jointly acquired a 33.33% interest from another partner in our nine Labrador permits. Eastcan Exploration (Total, Sun Oil, Amerada Hess and AGIP) have acquired a drillship and will be drilling on the adjoining Tenneco acreage this season.





SW Saskatchewan Gas Prospect

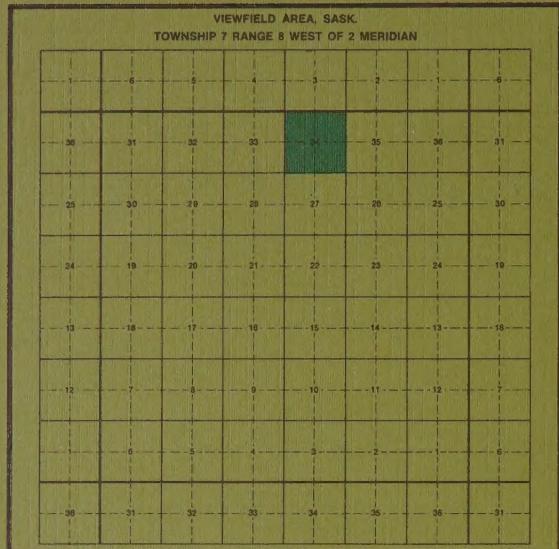
128,320 gross acres 128,320 net acres

At separate sales we acquired the Skull Creek Permit, Blacktail Creek Permit and Garden Head Drilling Reservation in a regional gas play we were developing. We posted another permit to fill out the play but were outbid by Imperial Oil who have since drilled a well which we understand to be a successful gas well. A drilling farmout has been arranged at Garden Head with a drilling option on Skull Creek. In addition we have been approached about a farmout at Blacktail Creek.

Coteau, Saskatchewan

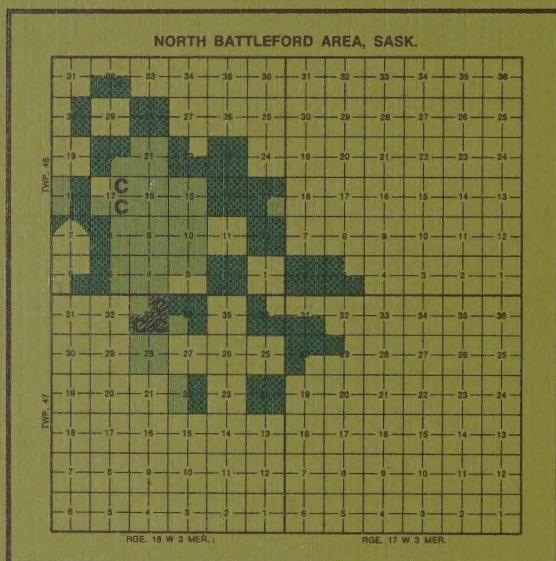
48,320 gross acres 40,640 net acres

Union Gas drilled a well on the western portion of our permit to earn a 50% working interest. Indications are that it could have been a gas well but due to completion problems it had to be abandoned. Union propose to drill an offset well at their expense to confirm this. Union also have an option to drill a well on the eastern portion of the permit to earn a 50% working interest.



Viewfield, Saskatchewan

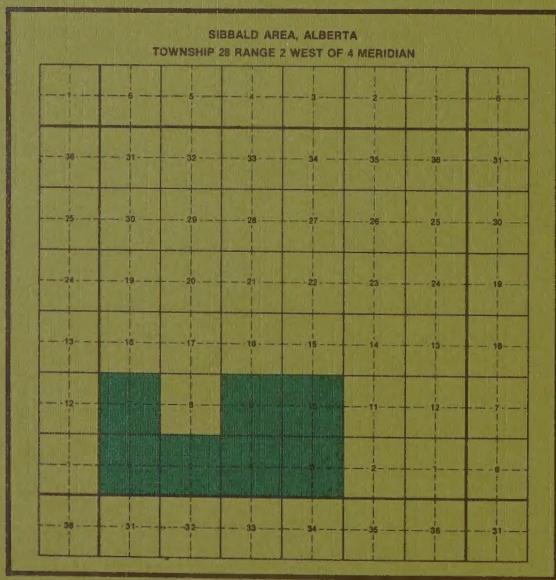
Canada Geothermal took a 50% farmin participation in a well on 5-34-7-8 W2M which was completed as a successful oil well and is now producing at 80 bbls/day. From seismic work done prior to drilling, the more favourable portion of the structure appeared to be on the adjoining half section. This land was posted for competitive bidding and our group was successful in acquiring it. The farmor, in view of the successful well, exercised its option to back in and the Company's working interest has been reduced to 25%. From the data available it appears there are an additional five highly prospective locations which will be drilled this year.



North Battleford, Sask.

- CAN. GEO. 20%
- OPTION LANDS
- C CROWN LEASES PURCHASED
- CAN. GEO. 45%

By drilling three wells on a farmin from Texas Gulf and one well with Texas Gulf on a farmin from PanCanadian Canada Geothermal has earned a 20% interest in 6,400 acres. In addition, a 20% interest in 320 acres and a 45% interest in 473 acres were acquired at Crown sales. Of the four wells drilled, two were successful gas wells and two were dry holes. Negotiations are underway with Saskatchewan Power Corporation for a sales contract connecting this gas production to pipelines.



Sibbald, Alberta

The Company acquired an 85% interest in all rights except the Viking underlying 4,480 acres in the Sibbald area of Alberta. The Alberta Energy Resources Board has assigned marketable gas reserves of 10 BCF to the Colony Sands in this pool. Our own analysis of the region indicate probable reserves of 13.6 BCF in the Colony Sands, of which 8.6 BCF underlies company lands and possible reserves of 15.2 BCF in the Bakken Sands, of which 11.9 BCF underlies company lands. Development plans are currently being finalized.

Saskatchewan Potash

The Company recently completed negotiations to acquire 100% of Saskatchewan Potash Permit KP 225 comprising 76,628 acres which is in the East Saskatchewan Sub-Basin where Ideal Basic Industries, U.S. Borax and Noranda have producing mines. Exploration prior to 1969 indicated probable recoverable reserves of 250 million tons grading 28% K2O. Two additional holes drilled in 1970 and 1971 confirmed the earlier results and resulted in indicated probable and possible recoverable reserves of 280 million tons grading 29.4% K2O over a 9' mining thickness. With the potash supply-demand situation gradually coming into balance, in the opinion of your Directors this property constitutes an extremely valuable asset.

Drilling Activities

Sweetgrass, Montana (12.5% W.I.) — dry and abandoned, further geological interpretive work is being done to reassess this prospect which covers 1,360 acres straddling the Montana-Alberta boundary.

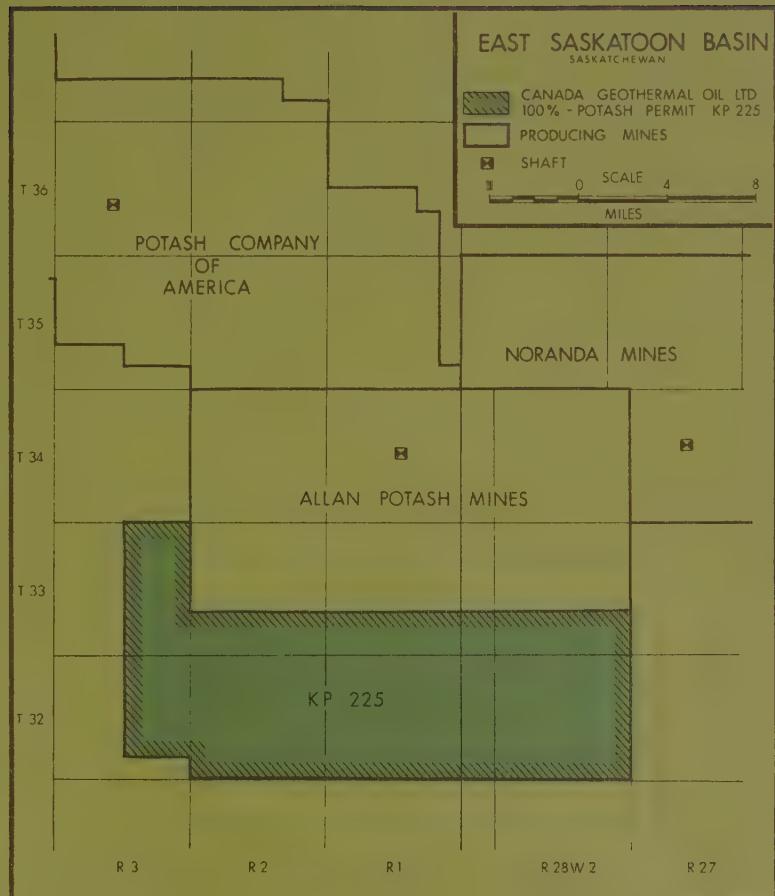
Florence, Saskatchewan (75% W.I.) — oil discovery, marginal, produced for several months, shut in pending disposition.

Viewfield, Saskatchewan (25% W.I.) — oil extension, five adjoining locations to be developed.

North Battleford, Saskatchewan (20% W.I.) — two gas discovery wells, two dry holes drilled on farmouts to earn acreage. Two wells planned.

Dahadinni, N.W.T. (10% of costs) — Imperial Oil Limited, operators of this well recommended abandonment before reaching the target zone as the drill rig had reached the limit of its capabilities. Samples of the last 10' drilled indicated a formation lithological change which might have been the beginning of the target zone. The possibility of reentering this hole with a rig of greater capacity to test this formation change is under consideration.

North Beatton River, B.C. (16.67% of costs) — dry and abandoned, found excellent reservoir sands but without hydrocarbons.



Depot Point, Arctic Islands (2.75% of costs) — dry and abandoned, did not reach target zone due to unexpected thickness of Triassic beds and latterly to drilling problems.

Middle Fiord, Arctic Islands (20.40% of costs) — to be drilled this fall. Costs of this well have been pre-paid.

Other Land Activities

Two permits in the North Beaver River area were dropped as a portion of them had been reserved for the new Nahanni National Park and also because of general industry lack of interest in the area due to inaccessibility.

All other land interests have been maintained.

Summary of Exploration Acreage

	Type of Holding	Gross Acres	Company %	Net Acres
Arctic Islands				
Axel Heiberg Island	Ex. Permit	457,352	67.78	309,993
A4672-A4678 incl. A4694-A4698 Inc.	"	852,107	90.00	766,896
A4699-A4734 incl. A4736	"	302,246	80.00	241,797
A4759-A4762 incl. A4845-A4847 incl.				
Nansen & Greely Sounds	"	108,366	50.00	54,183
A4848-A4850 incl.				
Ellesmere	"	81,833	40.00	32,733
A5133 & A5134	"	872,318	70.00	610,623
A5132, A5135-A5156 incl.	"	520,478	67.00	348,720
A5374-A5386 incl.				
Penny Strait	"	61,021	100.00	61,021
A4735				
Devon Island	"	302,929	40.00	121,172
A5113-A5117 incl.				
Russell Island	"	105,491	40.00	42,196
A5111 & A5112				
Depot Point	"	189,036	0.6866	1,298
A816, A817, A851, A852, A960, A963				
Middle Fiord	"	182,061	9.2992	16,930
A2801-A2804 incl.				
Northwest Territories				
Beaver River Area	"	126,263	90.00	113,637
5502, 5503, 5637	"	218,500	97.50	213,038
6560-6564 incl.	"	48,890	90.00	44,001
Bell River 6299	"	115,319	1.9125	2,205
Dahadinni 4378, 4379 & 6445				
British Columbia				
Flathead North 1879	P&NG Permit	41,196	50.00	20,598
Fording Mountain 2162	"	40,985	55.00	22,542
Kakwa River 1877	"	74,855	100.00	74,855
Montney	P&NG Leases	2,553	100.00	2,553
Narraway	"	29,795	45.00	13,408
Nettle North	"	2,072	16.67	345
Tenaka North	"	672	33.33	224
Alberta				
Drumheller	"	320	100.00	320
Sibbald	"	4,480	85.00	3,808
Sweetgrass	"	640	12.50	80
Virgo	"	274	40.00	110
Wainwright	"	2,160	2.75	59
"	"	1,920	1.375	28
Saskatchewan				
Beverly West	"	324	90.00	292
Black Tail Creek 2216	P&NG Permit	65,760	100.00	65,760
Coteau 2190	"	32,960	100.00	32,960
Coteau	"	15,360	50.00	7,680
Florence	P&NG Leases	634	75.00	476
Garden Head DR 597	"	4,640	100.00	4,640
Hastings	"	80	100.00	80
Hoffer	"	800	10.00	80
North Battleford	"	6,720	20.00	1,344
"	"	473	45.00	234
Skull Creek 2189	P&NG Permit	57,920	100.00	57,920
Viewfield	P&NG Leases	560	25.00	140
Offshore Eastern Canada				
W6128-W6136 incl. W6389 & W6390	Ex. Permit	398,384	30.00	119,515
Offshore United Kingdom				
P156, P176 & P227	Ex. Licences	773,077	16.75	129,490
Offshore Netherlands				
G15 & M6	"	108,725	34.75	37,782
Tunisia	"	3,527,599	1.00	35,276
Tunisia	"	2,840,000	2.50	71,000
Australia	Ex. Permit	5,929,600	8.00	474,368
Montana - Sweetgrass Area	Leases	720	12.50	90
Alaska	"	5,043	100.00	5,043
"	"	5,762	75.00	4,322
		18,521,273		4,167,865

Producing Properties

Alberta — Crossfield Cardium Unit 1, Segment A	— 9.35767% interest
Leduc Woodbend D2 Unit	— 0.36930% interest
Leduc Woodbend D3 Unit	— 0.2982012% interest
Saskatchewan — Hoffer — 9-25-1-15 W2	— 10%
Viewfield — 5-7-8-2 W2	— 50%*

* Farmor has right to convert to working interest after payout reducing interest to 25%.

CANADA GEOTHERMAL OIL LTD.

Consolidated Statement of Source and Application of Funds

For the Year Ended March 31, 1973
(with 1972 figures for comparison)

	1973	1972
FUNDS PROVIDED:		
Proceeds from issue of shares (Notes 8 and 9)	\$ 406,946	\$4,163,826
Allotment of shares (Notes 8 and 9)	(215,266)	600,432
Proceeds from sale of property interests	—	15,052
Long-term loan from a shareholder (Note 7)	115,331	141,750
Trust liability (Note 4)	101,000	—
Sales of other investments	37,680	—
Proceeds from sale of 7% Series A convertible debentures (Note 7)	500,000	—
7% Note payable, due March 15, 1976 (Note 7)	300,000	—
8% Note payable, affiliated company (Note 7)	110,756	—
6% Note payable, Alaska Exploration Corporation	(189,702)	189,702
Total funds provided	1,166,745	5,110,762
FUNDS APPLIED:		
Investment in and advances to wholly-owned subsidiaries (Note 1)	140,761	—
Additions to oil, gas and mineral permits, leases and interests	358,337	584,727
Additions to well development costs	126,530	14,256
Purchase of well, battery and other equipment	4,989	3,478
Additions to deferred expenditures, excluding depreciation and depletion of \$3,491 (1972 — \$9,873)	294,316	143,059
Reorganization and financing expenses	8,022	58,748
Investment in shares reclassified as non-current asset	—	37,680
Additions to property interests and deferred expenditures through acquisition of subsidiaries	—	3,830,497
Funds held in trust (Note 4)	101,000	—
Purchase of securities	5,000	—
Shares purchased for cancellation	309	—
Horn River Drillarctic Joint Venture — expenditures to date	327,040	—
Horn River Drillarctic Joint Venture — committed funds not yet expended (Note 5)	238,496	—
Total funds applied	1,604,800	4,672,445
(DECREASE) INCREASE IN WORKING CAPITAL	(438,055)	438,317
WORKING CAPITAL AT BEGINNING OF THE YEAR:		
As previously reported	146,097	6,540
Restatement of current portion of notes payable (Note 2)	298,760	—
As restated	444,857	6,540
WORKING CAPITAL AT END OF THE YEAR:	\$ 6,802	\$ 444,857

The accompanying notes are an integral part of the consolidated financial statements.

CANADA GEOTHERMAL OIL LTD.

(Under the Business Corporations Act, Ontario)

Consolidated Balance Sheet as at March 31, 1973

(with 1972 figures for comparison)

AUDITORS' REPORT

To the Shareholders of
Canada Geothermal Oil Ltd.

We have examined the consolidated balance sheet of Canada Geothermal Oil Ltd. and its wholly-owned subsidiaries as at March 31, 1973 and the consolidated statements of changes in property interests and deferred expenditures and source and application of funds for the year then ended. Our examination included a general review of the accounting procedures and such tests of accounting records and other supporting evidence as we considered necessary in the circumstances.

In our opinion, subject to such adjustment as would result from failure to recover in the future, the investment in and advances to wholly-owned subsidiaries and the amounts at which property interests and deferred expenditures are carried in the consolidated balance sheet (see Note 1), these consolidated financial statements present fairly the financial position of the companies as at March 31, 1973 and the changes in their property interests and deferred expenditures and the source and application of their funds for the year then ended in accordance with generally accepted accounting principles applied, after giving retroactive effect to the change in method of accounting for property interests and deferred expenditures and notes payable referred to in Note 2, on a basis consistent with that of the preceding year.

June 12, 1973
Calgary, Alberta

**Deloitte Haskins & Sells
Chartered Accountants**

LIABILITIES AND SHAREHOLDERS' EQUITY

	1973	1972
CURRENT LIABILITIES:		
Bank indebtedness (Note 6)	\$ 22,908	\$ —
Accounts payable and accrued liabilities	180,440	97,082
Current portion of long-term debt (Note 2)	—	92,552
Funds held in trust	—	180,000
Total current liabilities	<u>203,348</u>	<u>369,634</u>
TRUST LIABILITY (Note 4)	<u>101,000</u>	<u>—</u>
LONG-TERM DEBT (Notes 2 and 7)	<u>1,167,837</u>	<u>331,452</u>
SHAREHOLDERS' EQUITY:		
Capital stock (Notes 8, 9 and 10):		
Authorized:		
8,000,000 common shares of no par value		
Issued and fully paid:		
4,615,768 common shares (1972 — 4,247,949 common shares)	6,030,919	5,623,973
Allotted and to be issued:		
419,755 common shares (1972 — 602,614 common shares) . . .	<u>491,416</u>	<u>706,682</u>
Repurchased for cancellation:		
266 common shares (1972 — Nil)	<u>309</u>	<u>—</u>
Deficit	<u>6,522,026</u>	<u>6,330,655</u>
	<u>1,339,714</u>	<u>1,339,714</u>
Net shareholders' equity	<u><u>5,182,312</u></u>	<u><u>4,990,941</u></u>
TOTAL	<u><u>\$6,654,497</u></u>	<u><u>\$5,692,027</u></u>

The accompanying notes are an integral part of the consolidated financial statements.

CANADA GEOTHERMAL OIL LTD.

Consolidated Statement of Changes in Property Interests and Deferred Expenditures

For the Year Ended March 31, 1973

	Balance April 1, 1972	Additions	Sales and Transfers	Balance March 31, 1973
PROPERTY INTERESTS:				
Oil, gas and mineral permits, leases and interests	\$4,345,644	\$ 993,703	\$635,366	\$4,703,981
Well development costs	23,715	181,778	55,248	150,245
Well, battery and other equipment	7,032	9,238	4,249	12,021
Horn River Drillarctic Joint Venture	—	473,760	146,720	327,040
Total property interests	<u>4,376,391</u>	<u>1,658,479</u>	<u>841,583</u>	<u>5,193,287</u>
DEFERRED EXPENDITURES:				
Administration and general	229,254	220,084	—	449,338
Depletion and depreciation (Note 1)	9,873	3,491	—	13,364
Geological and geophysical	104,036	34,559	—	138,595
Interest — net	45,828	98,892	—	144,720
Lease rentals	42,431	—	1,327	41,104
Other charges	4,956	7,840	—	12,796
	<u>436,378</u>	<u>364,866</u>	<u>1,327</u>	<u>799,917</u>
Less income:				
Net proceeds from production	6,903	27,969	—	34,872
Administration and other fees	29,187	19,624	—	48,811
Gain on sale of investments	510	—	—	510
Interest income	—	21,630	—	21,630
	<u>36,600</u>	<u>69,223</u>	<u>—</u>	<u>105,823</u>
Total deferred expenditures	<u>399,778</u>	<u>295,643</u>	<u>1,327</u>	<u>694,094</u>
Total property interests and deferred expenditures	<u><u>\$4,776,169</u></u>	<u><u>\$1,954,122</u></u>	<u><u>\$842,910</u></u>	<u><u>\$5,887,381</u></u>

The accompanying notes are an integral part of the consolidated financial statements.

CANADA GEOTHERMAL OIL LTD.

Notes to the Consolidated Financial Statements

March 31, 1973

1. PRINCIPLES OF CONSOLIDATION AND ACCOUNTING POLICY:

a) The accompanying consolidated financial statements include the accounts of Canada Geothermal Oil Ltd. and its wholly-owned subsidiaries Yukon Geothermal Co. Ltd. and Alaska Geothermal Oil Co. Inc. The accounts of Alaska Geothermal Oil Co. Inc. have been translated to Canadian dollars at historical rates. The difference between the cost of the shares of these subsidiaries and their net book values at date of acquisition has been included in property interests and deferred expenditures. These financial statements do not include the accounts of the wholly-owned subsidiaries Geothermal Oil Limited (which was consolidated in 1972 to the extent of capital stock of \$267 and incorporation expense of \$394), Nederlands Geologische en Algemene Service Maatschappij N.V. and Cango Oil Iberica Ltd. which were activated or incorporated during the year in Britain, Netherlands and Alberta, Canada, respectively, because these subsidiaries are in the formative stages and their only assets at March 31, 1973 consist of property interests. The assets, liabilities, income and expenses of Globe Oil Co. (1958) Ltd. have not been included because as stated in its March 31, 1970 audited financial statements and as is currently the situation, the subsidiary's title to substantially all of its oil and gas properties is in jeopardy as a result of failure to pay royalties owing on past production. No income or loss has been recorded for the past year for this subsidiary and the value of the investment in shares and advances to the unconsolidated subsidiary is still considered to be of nominal value.

(b) The properties in which the companies have interests are in an exploratory or development stage and accordingly, all expenditures (net of proceeds) have been capitalized or deferred. No provision for depletion, amortization or depreciation of the amounts carried for nonproducing property interests or for the amounts carried for deferred expenditures is included in the accompanying financial statements. Depreciation has been provided on well, battery and other equipment on the diminishing-balance method at rates of 10% - 30%. Amortization of well development costs and depletion of property interest costs pertaining to producing wells has been provided on the unit-of-production method. Realization of the amounts represented by property interests and deferred expenditures is dependent upon future developments, since the properties represented by these assets are substantially unexplored or undeveloped.

2. CHANGE IN ACCOUNTING PRACTICE:

During the year the company retroactively changed its accounting practice from that of recording the cost of certain exploratory permits and the corresponding contingent liability for these permits (non-interest bearing notes payable to the Government of Canada) to that of not recording this cost and contingent liability. As a result of this retroactive change for 1972, property interests and deferred expenditures have been reduced by \$483,910, current portion of long-term debt by \$298,760 and long-term debt by \$185,150.

3. TERM DEPOSITS:

The company has commitments (Note 14) fully secured by term deposits which may be forfeited to the Government of Canada if the commitments are not met by the company within specific periods.

4. FUNDS HELD IN TRUST:

Funds held in trust have been advanced by working partners and deposited in the Bank of London and South America in Spain pending final disposition on application for Spanish exploration licences.

5. JOINT VENTURE PREPAYMENT:

During the year, the company entered into the Horn River Drillarctic Joint Venture with other participants. In this connection the company has advanced funds for their share of costs on this project and as at March 31, 1973 the unexpended advances of \$238,496 were held on deposit pending future drilling.

6. BANK INDEBTEDNESS:

Bank indebtedness is secured by an assignment of accounts receivable and a personal guarantee of a shareholder.

7. LONG-TERM DEBT:

The details of long-term debt as at March 31, 1973 are as follows:

	1973	1972
7% Series A convertible debentures, due August 14, 1979	\$ 500,000	\$ —
7% Note payable, due March 15, 1976	300,000	—
8% Note payable, affiliated company, no fixed terms of repayment with interest accruing at current bank rates	110,756	—
6% Note payable, Alaska Exploration Corporation	—	189,702
Due to shareholder, no fixed terms of repayment with interest accruing at current bank rates	257,081	141,750
	<hr/> <u>\$1,167,837</u>	<hr/> <u>\$ 331,452</u>

The 7% Series A convertible debentures are secured by a floating charge on all assets of the company. The 7% note payable is secured by a first charge on the Sibbald and Viewfield properties and a floating charge on all assets of the company.

The note payable, affiliated company and the amount due to shareholder are unsecured.

The 7% Series A convertible debentures are convertible at any time after August 17, 1974 at the option of the debenture holders for 434,784 treasury shares at \$1.15 per share or if called prior to maturity by the company at \$1.15 per share.

8. CAPITAL STOCK:

a) Changes in issued capital stock during the year were as follows:

	Number of Shares	Amount
Balance April 1, 1972	4,247,979	\$ 5,623,973
Issued for settlement of loans payable to a shareholder	135,000	141,750
Issue of allotted shares	182,859	215,266
Issued under employee stock options for cash (Note 9)	49,930	49,930
Balance March 31, 1972	<hr/> <u>4,615,768</u>	<hr/> <u>\$ 6,030,919</u>

b) Pursuant to an agreement dated February 18, 1970, the company acquired interests in certain properties valued at \$139,592 in exchange for 22,800 shares of Sturgeon Petroleums Ltd. valued at \$14,592 and a commitment to issue in instalments 100,000 treasury shares valued at \$125,000. During the year 35,000 shares were issued at a value of \$43,750. The remaining shares allotted are to be issued in the following instalments:

20,000 shares on June 1, 1973	\$ 25,000
30,000 shares on June 1, 1974	37,500
50,000 shares	\$ 62,500

As at March 31, 1973 or subsequent thereto, the Board of Directors have not authorized the issue of the allotted shares due on June 1, 1973 and June 1, 1974.

c) Pursuant to an agreement dated May 31, 1971, the company acquired interests in certain properties valued at \$821,853 in exchange for 708,794 shares of the company. During the year 147,859 shares valued at \$171,516 were issued under this agreement, leaving 369,755 shares valued at \$428,916 allotted and to be issued as follows:

139,006 shares on August 25, 1973	\$ 161,247
116,440 shares on August 25, 1974	135,070
114,309 shares on August 25, 1975	132,599
369,755 shares	<hr/> <u>\$428,916</u>

9. STOCK OPTIONS:

(a) Employee options:

During the year options on 49,930 common shares of the company were exercised for an aggregate cash consideration of \$49,930; options on an additional 105,000 shares were cancelled and options on 36,600 shares were granted at \$1.15 per share. At March 31, 1973 the following employee options were outstanding:

Date Option Granted	Number of Shares Under Option	Price per share	Expiry Date
December 15, 1971	13,400	\$1.00	December 15, 1976
June 13, 1972	26,670	\$1.00	June 13, 1977
October 3, 1972	36,600	\$1.15	October 3, 1977

The options may be exercised at 33 1/3% per year cumulative from date of granting. Subsequent to the year end options on 6,200 shares granted on October 3, 1972 were exercised for a cash consideration of \$7,130.

(b) Other options:

In conjunction with the \$500,000 7% Series A convertible debenture issue (See Note 7) a \$25,000 finders fee was incurred; \$6,250 of this amount was satisfied by the granting of an option on 25,000 common shares of the company at \$1.15 per share exercisable until 1977.

In conjunction with the \$300,000 7% note payable (Note 7) the company granted an option on 55,000 common shares at \$2.50 per share exercisable until March 15, 1976.

10. EXECUTIVE SHARE ALLOTTMENT:

Subject to approval of Special By Law No. 75, the Directors of the company have provisionally allotted 75,000 common shares to an officer of the company in exchange for his demand promissory note totalling \$140,250.

Subject to approval by the shareholders the Directors of the company have provisionally allotted 75,000 common shares to a shareholder at \$2.50 per share in partial repayment of advances (Note 7).

Accordingly, these shares will not be recorded in the accounts of the company until formal ratification is received from the shareholders.

11. STATUTORY INFORMATION:

The aggregate direct remuneration paid to directors and senior officers of the company and its wholly-owned consolidated subsidiaries amounted to \$65,650 (1972 — \$49,350). No amounts were paid by unconsolidated subsidiaries.

12. CONTINGENT ASSET:

The company has earned future work credits approximating \$514,000 by the farm out of an interest in a portion of its Arctic permits.

13. INCOME TAXES:

Under Canadian income tax law, exploration and development expenditure including certain property acquisition costs may be deducted from income or, if such expenditures exceed income for the year, the excess may be carried forward to subsequent years, and thus, no provision for income taxes was required for the year ended March 31, 1973.

14. COMMITMENTS AND CONTINGENT LIABILITIES:

The company has issued non-interest bearing demand notes to the Government of Canada as security for the performance of work obligations by the company and others in respect of normal exploration activity. The aggregate of such notes amounted to \$115,210 at March 31, 1973 (1972 — \$483,910).

